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REGISTRANT'S NAME

Global Direct

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\*\*FORMER NAME

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Globel Direct, inc.

AR/S  
5-31-03

Annual Report

Year ended May 31, 2003

# Management's Discussion & Analysis

The following discussion and analysis is management's assessment of Globel's historical financial and operating results and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended May 31, 2003.

## Major Transactions Affecting Financial Results

The economic slowdown has continued to keep revenues suppressed, however, the Company remains focused on managing its cost structure to keep pace with those revenue levels.

During its fourth quarter, Globel Direct completed a conversion of \$900,000 of convertible debentures, conversion of \$480,000 of shareholder loans, and sold new common shares thru a private placement in the amount of \$620,000, for a total increase to share capital of \$2,000,000.

## Revenue

Revenue in 2003 fell by 20% to \$19.1 million compared to \$23.7 million in 2002. The decrease results from sales declines in Canadian direct marketing services and domestic direct mail operations as customers deferred spending decisions as a result of current macroeconomic and geopolitical conditions, as well as the Company's decision to exit unprofitable business.

## Expenses

Expenses in fiscal 2003 were \$19.3 million compared to \$25.5 million in 2002, a decrease of 25%. Production expenses decreased to \$12.2 million in 2003 from \$15.7 million in 2002 yielding a gross margin of 36% as compared to 34% in 2002 as a result of managements focus on cost containment & focus on restoring profitability.

Administration, selling and marketing expenses decreased to a combined total of \$7.1 million in 2003 from \$9.9 million in 2002 which was a decrease of 5% as a percentage of revenues over the prior year resulting from diligent expense management. The Company continues to seek ways to lower its operating costs and put greater emphasis on the profitability of its contracts.

## Interest and Amortization and other:

Interest increased by \$2.2 million to \$2.8 million from \$0.6 million in the prior year, due to the Company's high borrowing cost on its debt structure, and the recognition of \$1.6 million in interest expense from it's \$3,000,000 convertible debenture which did not convert to equity by its due date. Management is currently working towards restructuring the debenture.

Amortization decreased by \$0.4 million to \$1.0 million from \$1.4 million in the prior year due to its lower asset base as a result of declining balance method used to calculate its amortization expense.

Restructuring costs of \$1.1 million included a settlement agreement with a leasing partner, arising from the exit of it's Toronto premises resulting in an expense of \$0.3 million, reclassification of \$0.4 million of aged accounts payable, which management believes will not be paid, and \$0.4 million of other restructuring expenses related to the downsizing of its labour force and other bank charges due to it's exit from its former operating line of credit, none of which are directly attributable to the current years operations.

## **Income Taxes**

Current income taxes were calculated to be nil for 2003 as compared with a recovery position of \$0.4 million in 2002. Globel currently has approximately \$5.5 million in aggregate non-capital losses, which commence to expire commencing 2007.

## **Liquidity and Capital Resources**

Working capital (defined as current assets minus current liabilities excluding current portion of long-term debt and capital leases) was in a deficit position of \$1.5 million at the end of Fiscal 2003, compared with a deficit position of \$0.8 million of working capital at the end of 2002, yielding a working capital ratio of .76 versus .88 from a year earlier. The decrease in working capital is attributable to the ongoing restructuring expenses the company has been incurring.

Globel Direct repaid its operating line of credit with TD Bank in the amount of \$1.9 million during its first three quarters, successfully repaying TD in its entirety by the end of December, 2002, out of operating cash flows and new funding received through factoring of the Company's Accounts Receivable.

The Company entered into a new lending arrangement with Express Commercial Services (ECS) during its first quarter. This lending arrangement involves the assignment of Globel Direct's accounts receivable to ECS. At the end of the fiscal year the amount currently owed to ECS was \$1.1 million.

The Company converted a convertible debenture in the current year in the amount of \$900,000 in exchange for 7.5 million common shares at a price of \$0.12 each.

The Company also converted shareholder loans in the amount of \$480,000 for 4.0 million common shares at a price of \$0.12 each.

Globel Direct sold additional common shares during the year resulting in new cash raised of \$620,000 in exchange for 5,166,666 common shares at \$0.12 each.

Globel Direct successfully entered into a settlement agreement with a leasing partner regarding the exit of leased premises resulting in an expense of \$340,000. This agreement requires the Company to pay, without interest, \$340,000 in equal monthly installments of \$5,000 commencing June 1, 2003 through June 1, 2007.

## **Risks and Uncertainties**

The market for the Company's direct marketing and business communications solutions is highly competitive, characterized by ongoing technological development and rapid changes in customer requirements. The Company's future success will depend on its ability to continue to enhance its current products and to develop and introduce, in a timely manner, new products that take advantage of technological advances and respond to new customer requirements. It may be necessary for the Company to raise additional funds to support growth in these areas.

## **Outlook**

Fiscal year 2004 is expected to be similar to Fiscal 2003 in revenue levels, however is expected to show continued improvement to its profit margins. The Company is continuing with its cost cutting measures to manage its costs against expected revenue levels to achieve profitability.



## Management's Report

The consolidated financial statements for Globel Direct, inc. were prepared by management within acceptable limits of materiality and are in accordance with accounting principles generally accepted in Canada.

The consolidated financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the consolidated financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management.

Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial reports properly maintained to facilitate the preparation of consolidated financial statements for reporting purposes.

Grant Thornton LLP, an independent firm of Chartered Accountants appointed by the shareholders, have conducted an examination of the corporate and accounting records in order to express their opinion on the consolidated financial statements. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

**(Signed) "J.R. Richardson"**

J.R. Richardson  
President & Chief Executive Officer

**(Signed) "Leslie Byle"**

Leslie Byle  
Chief Financial Officer

# Auditors' Report

To the Shareholders of  
**Globel Direct, Inc.**

We have audited the consolidated balance sheet of **Globel Direct, Inc.** at May 31, 2003 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at May 31, 2002 and for the year then ended, prior to adjustments for unrecorded amounts described in note 2, were audited by another firm of chartered accountants who expressed an unqualified opinion on these statements in their report dated December 17, 2002. We have audited the adjustments to the May 31, 2002 financial statements and, in our opinion, such adjustments are appropriate and have been properly applied in all material respects.

Calgary, Alberta  
October 17, 2003

(Signed) "Grant Thornton LLP"

Chartered Accountants

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**Globel Direct, Inc.**  
**Consolidated Balance Sheet**

May 31	2003	2002 (Restated Note 2)
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 163,211	\$ 400,937
Accounts receivable	3,873,211	4,216,066
Inventory	246,733	586,868
Deposits and prepaid expenses	414,705	663,526
Income taxes recoverable	<u>35,274</u>	<u>389,789</u>
	4,733,134	6,257,186
Capital assets (Note 5)	3,413,745	4,176,932
Investments at cost	<u>24,471</u>	<u>24,471</u>
	<u>\$ 8,171,350</u>	<u>\$ 10,458,589</u>

**Liabilities**

Current		
Factor line of credit (Note 6)	\$ 1,125,966	\$ -
Bank indebtedness (Note 7)	-	1,913,980
Payables and accruals	4,036,574	3,737,660
Postage advances	1,046,504	1,409,511
Due to shareholder	<u>45,000</u>	<u>50,000</u>
	6,254,044	7,111,151
Current portion of long-term debt (Note 8)	1,144,285	764,056
Convertible debentures (Note 9)	4,600,000	-
Obligation under capital leases	-	<u>7,007</u>
	11,998,329	7,882,214
Convertible debentures (Note 9)	-	3,797,725
Due to affiliate	75,000	75,000
Long-term debt (Note 8)	<u>1,715,892</u>	<u>1,253,115</u>
	<u>13,789,221</u>	<u>13,008,054</u>

**Shareholders' Deficiency**

Share capital (Note 11)	5,733,347	3,686,443
Equity component of convertible debentures	-	113,000
Contributed surplus (Note 12b)	62,914	-
Deficit	<u>(11,414,132)</u>	<u>(6,348,908)</u>
	<u>(5,617,871)</u>	<u>(2,549,465)</u>
	<u>\$ 8,171,350</u>	<u>\$ 10,458,589</u>

Nature and continuance of operations (Note 1) and Commitments (Note 14)  
On behalf of the Board

(Signed) "R. David Webster" Director (Signed) "Daryl H. Gilbert" Director

See accompanying notes to the consolidated financial statements.

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**Globel Direct, Inc.****Consolidated Statements of Loss and Deficit**

Year Ended May 31	2003	2002 (Restated Note 2)
Revenue	\$ <u>19,059,154</u>	\$ <u>23,712,595</u>
Expenses		
Production	12,208,275	15,681,615
Administration	5,560,069	7,837,128
Selling and marketing	<u>1,508,788</u>	<u>2,070,805</u>
	<u>19,277,132</u>	<u>25,589,548</u>
Loss from operations	(217,978)	(1,876,953)
Interest expense - current	735,534	331,001
- long-term	2,018,023	296,699
Amortization	1,016,760	1,421,134
Restructuring costs	1,076,929	385,000
Write-down of capital assets	<u>-</u>	<u>520,342</u>
Loss before the undernoted	<u>(5,065,224)</u>	<u>(4,831,129)</u>
Income tax expense (recovery) (Note 10)		
Current	-	(454,765)
Future	<u>-</u>	<u>(558,322)</u>
	<u>-</u>	<u>(1,013,087)</u>
Goodwill write-down	<u>-</u>	<u>3,178,423</u>
Net loss	\$ <u>(5,065,224)</u>	\$ <u>(6,996,465)</u>
(Deficit) retained earnings, beginning of year	\$ (6,348,908)	\$ 761,325
Net loss	(5,065,224)	(6,996,465)
Premium and redemption	-	(33,646)
Accretion on equity component of convertible debenture net of tax effect	<u>-</u>	<u>(80,122)</u>
Deficit, end of year	\$ <u>(11,414,132)</u>	\$ <u>(6,348,908)</u>
Basic loss per common share (Note 11e)	\$ <u>(0.27)</u>	\$ <u>(0.41)</u>

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See accompanying notes to the consolidated financial statements.

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# Global Direct, Inc.

## Consolidated Statement of Cash Flows

Year Ended May 31

2003

2002

(Restated  
Note 2)

Increase (decrease) in cash and cash equivalents

### Operating

Net loss	\$ (5,065,224)	\$ (6,996,465)
Goodwill write-down	-	3,178,423
Amortization	1,016,760	1,421,134
Future income taxes	-	(558,322)
Gain on disposal of capital assets	(16,324)	-
Write-down of capital assets	-	520,342
Other	48,082	42,771
Interest accretion on convertible debt	-	179,634
Interest converted to shares	65,043	-
	(3,951,663)	(2,212,483)
Changes in non-cash operating working capital (Note 13)	1,222,233	3,053,700
	(2,729,430)	841,217

### Financing

Proceeds from factor line of credit, net	1,125,966	-
Proceeds from convertible debenture	-	900,000
Repayment of bank indebtedness, net	(1,913,980)	(586,020)
Proceeds from long-term debt	5,148,137	751,851
Repayment of long-term debt	(2,235,856)	(246,943)
Redemption of preferred shares	-	(57,739)
Repayment of (proceeds from) shareholder	(5,000)	125,000
Repayments of obligations under capital lease	(7,007)	(10,961)
Issuance of common shares, net of issue costs	601,861	(4,406)
	2,714,121	870,782

### Investing

Proceeds on sale of capital assets	23,740	35,575
Purchase of capital assets	(246,157)	(773,965)
	(222,417)	(738,390)

Net (decrease) increase in cash and cash equivalents (237,726) 973,609

Cash and cash equivalents (bank indebtedness),

Beginning of year 400,937 (572,672)

End of year \$ 163,211 \$ 400,937

See accompanying notes to the consolidated financial statements.

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# **Globel Direct, Inc.**

## **Notes to the Consolidated Financial Statements**

May 31, 2003

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### **1. Nature and continuance of operations**

The Company is in the business of providing marketing, telecommunication and printing services.

At May 31, 2003, the Company has a working capital deficiency of \$7,265,195 (2002 - \$1,625,028), a deficit of \$11,414,132 (2002 - \$6,348,908) and has had recurring operating losses. Subsequent to year-end the Company has defaulted on the repayment of long-term debt which is secured by all the assets of the Company (note 9).

The Company's ability to continue as a going concern is dependent upon attaining and sustaining profitable operations and obtaining additional financing or restructuring its debt in order to fund its working capital deficiency and on-going operations. The Company's ability to attain profitable operations and positive cash flow in the future is dependent upon various factors including its ability to acquire new customer contracts, the success of management's continued cost reductions and general economic conditions.

There can be no assurance that the Company's efforts to restructure its debt and raise additional capital will be successful or that profitable operations and cash flows can be attained to meet the Company's working capital requirements. If the Company is unable to satisfy its working capital requirements from these sources, the Company's ability to continue as a going concern and to achieve its intended business objectives could be adversely affected.

These financial statements have been prepared on the basis that the Company will continue to meet its obligations in the ordinary course of business and do not reflect adjustments, such as revaluation to liquidation values and reclassification of balance sheet items, that would otherwise be necessary if the going concern assumption was not valid.

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### **2. Unrecorded amounts**

Certain transactions relating to the refinancing of lease commitments payable for the year ended May 31, 2002, were previously included in the future commitments disclosure and not recorded on the balance sheet. As a result, the Company retroactively restated the following as at and for the year ended May 31, 2002:

	<u>As reported</u>	<u>Change</u>	<u>Restated</u>
Production expense	\$ 15,123,900	\$ 557,715	\$ 15,681,615
Net loss	\$ (6,438,750)	\$ (557,715)	\$ (6,996,465)
Deficit, end of year	\$ (5,791,193)	\$ (557,715)	\$ (6,348,908)
Long-term debt	\$ 695,400	\$ 557,715	\$ 1,253,115

See accompanying notes to the consolidated financial statements.

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**Globel Direct, Inc.**  
**Notes to the Consolidated Financial Statements**  
May 31, 2003

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**3. Summary of significant accounting policies**

**Basis of presentation**

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the accounting policies summarized below:

In preparing the Company's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Significant areas requiring the use of management estimates include the useful lives of capital assets, the amount of investment tax credits to be received, the evaluation of impairment of long-term assets, the value of assets acquired and liabilities assumed in business combinations, and the provision for income taxes. Actual results could differ from those estimates.

**a) Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Security Mailing Inc. ("SMI"), Innovative Communications Ltd. ("ICL"), Jones Direct Marketing Services Ltd. ("JDMSL") and Globel E-Seminar Inc. ("GES"). All intercompany balances and transactions are eliminated upon consolidation.

**b) Inventory**

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

**c) Capital assets**

Capital assets are recorded at cost. Amortization is provided for using the following annual rates and methods:

Computer hardware	30%, declining balance
Computer software	50%, declining balance
Equipment	20%, declining balance
Office equipment	20%, declining balance
Vehicles	30%, declining balance
Leasehold improvements	5-6 years, straight-line

**d) Revenue recognition**

The Company records revenue from service contracts as services are provided. Included in inventory is \$88,989 (2002 - \$271,197) of work in progress at year end.

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See accompanying notes to the consolidated financial statements.

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# **Globel Direct, Inc.**

## **Notes to the Consolidated Financial Statements**

May 31, 2003

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### **3. Summary of significant accounting policies (Continued)**

#### **e) Income taxes**

Income taxes are accounted for using the asset and liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of assets and liabilities and their respective carrying amounts on the balance sheet are used to calculate future income tax assets or liabilities. Future tax assets and liabilities are calculated using enacted or substantively enacted tax rates anticipated to apply when the asset is realized or the liability settled.

#### **f) Investments**

The Company uses the cost method to account for its investments, whereby the investment is recorded at its original cost and earnings from the investment are recognized only to the extent received or receivable.

Where there has been a permanent decline in value, the investment is stated at net realizable value.

#### **g) Goodwill and intangible assets**

Goodwill and intangible assets represents the excess of the cost of acquisitions over the attributed fair value of assets and liabilities acquired. Management reviews the valuation and unamortized portion of goodwill and intangible assets annually, taking into consideration the nature of the industry and the circumstances which might impair the value. The amount of impairment, if any, is determined based on estimated future undiscounted cash flows. Any permanent impairment in the value of goodwill is written off against earnings.

During 2002, the Company recorded an impairment provision of \$3,178,423.

#### **h) Per share amounts**

Basic per share amounts are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted per share amounts are calculated using the treasury stock method giving effect to the potential dilution that would occur if stock options or other dilutive instruments were exercised or converted to common shares. The treasury stock method assumes that any proceeds upon the exercise or conversion of dilutive instruments, for which market prices exceeds exercise price, would be used to purchase common shares at the average market price of the common shares during the period.

See accompanying notes to the consolidated financial statements.

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## **Global Direct, Inc.**

### **Notes to the Consolidated Financial Statements**

May 31, 2003

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#### **3. Summary of significant accounting policies (Continued)**

##### **i) Measurement uncertainty**

The valuation of capital assets, and goodwill and intangible assets are based upon management's best estimate of the future recoverability of these assets. The amounts recorded for amortization of capital assets, and goodwill and intangible assets are based upon management's best estimate of the remaining useful life and period of future benefit of the related assets. The amount recorded for work in progress inventory is based upon management's best estimate of the percentage of completion of jobs in progress at year end.

The amounts disclosed relating to the fair value of stock options and warrants issued and the resulting income effect (note 12b) are based on estimates of the future volatility of the Company's share price, expected lives of the options, expected dividends and other relevant assumptions.

By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements from changes in such estimates could be significant.

##### **j) Financial instruments**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, factor line of credit, bank indebtedness, payables and accruals, convertible debentures, due to affiliate, and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

##### **k) Cash and cash equivalents**

Cash and cash equivalents are comprised of cash on hand, balances with banks and short-term deposits with a duration of three months or less. Bank borrowings are considered to be financing activities.

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See accompanying notes to the consolidated financial statements.

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# Global Direct, Inc.

## Notes to the Consolidated Financial Statements

May 31, 2003

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### 4. Change in accounting policy

The Company has a stock option plan as described in note 12.

Effective June 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") regarding accounting for stock-based compensation. As permitted by the CICA, the Company has applied this change for new awards granted on or after June 1, 2002. No restatement was required as a result of the adoption of the new recommendations.

Stock options and warrants granted to consultants are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the warrants at the grant date (Note 12b).

Stock options and warrants granted to employees, officers and directors are accounted for using the intrinsic value method, whereby no amount is recorded for stock options and warrants that have an exercise price equal to or greater than the fair value of the stock at the date options are granted. However, the pro forma effect of accounting for stock options granted, had the fair value-based method been used, is disclosed in the consolidated financial statements. Any consideration paid on exercise of stock options will be credited to share capital.

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### 5. Capital assets

			2003
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer hardware	\$ 921,155	\$ 601,900	\$ 319,255
Computer software	975,447	844,477	130,970
Equipment	8,882,905	6,368,860	2,514,045
Office equipment	546,627	336,509	210,118
Vehicles	51,503	51,503	-
Leasehold improvements	<u>1,093,290</u>	<u>853,933</u>	<u>239,357</u>
	<u>\$ 12,470,927</u>	<u>\$ 9,057,182</u>	<u>\$ 3,413,745</u>

See accompanying notes to the consolidated financial statements.

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**Globel Direct, Inc.**  
**Notes to the Consolidated Financial Statements**  
May 31, 2003

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**5. Capital assets (Continued)**

			2002
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer hardware	\$ 793,259	\$ 492,483	\$ 300,776
Computer software	950,744	726,966	223,778
Equipment	8,810,721	5,760,215	3,050,506
Office equipment	537,051	284,912	252,139
Vehicles	51,503	51,503	-
Leasehold improvements	1,074,076	724,343	349,733
	<u>\$ 12,217,354</u>	<u>\$ 8,040,422</u>	<u>\$ 4,176,932</u>

During 2002, the Company recorded an impairment provision on the capital assets acquired in connection with the Inet acquisition in the amount of \$520,342.

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**6. Factor line of credit**

Effective July 27, 2002, the Company entered into an agreement for a revolving line of credit to fund its operations from Express Commercial Services (ECS), in exchange for a first charge against the Company's accounts receivables, a general security agreement and postponement of all shareholder loans. This facility has replaced the former operating line of credit from TD Canada Trust (See Note 7). Under this new lending facility, the Company can borrow a maximum of \$5,000,000, based on good quality, fully earned and undisputed accounts receivable acceptable to ECS. The Company will receive in advance up to 75% of accounts receivable purchased by ECS, with the remainder received as collected by ECS, net of interest and service charges. This lending facility bears a discount rate of \$0.93 per day per \$1,000 of factored receivables and carries an equivalent interest rate of 34% per annum on outstanding accounts receivable.

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**7. Bank indebtedness**

The Company had a credit facility to maximum of \$2,500,000, bearing interest at prime plus 0.75%, due on demand. There was a General Security Agreement in first position on accounts receivable and inventory against the Company, ICL and SMI and a second charge on capital assets. This facility was terminated February 14, 2002 and the Company was permitted to borrow up to a maximum \$1,750,000 under a forbearance agreement expiring May 1, 2002. In August 2002 the Company repaid \$1,450,000 of the facility with the proceeds from the factor of its accounts receivable. Commencing September 1, 2002 the Company was required to repay the remaining facility in weekly payments of \$19,027 plus interest at prime plus 1.5% until fully repaid. The balance outstanding was fully repaid as at December 27, 2002 and security was discharged.

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See accompanying notes to the consolidated financial statements.

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## **Globel Direct, Inc.**

### **Notes to the Consolidated Financial Statements**

May 31, 2003

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<b>8. Long-term debt</b>	<b><u>2003</u></b>	<b><u>2002</u> (Restated Note 2)</b>
Five year term loan, repayable in monthly payments of \$19,800 plus interest at the lenders floating base rate plus 3.25% per annum, plus an administration fee of \$3,800 per month for the term of the loan, maturing in August, 2004	<b>\$ 290,000</b>	<b>\$ 531,600</b>
Term loan, repayable in blended monthly payments of \$15,000 including interest at 2% per month for the term of the loan, maturing in November 2003 with the balance remaining payable at that time	<b>438,184</b>	<b>522,456</b>
Term loan, repayable in monthly principal installments of \$510 plus interest at the lenders floating rate plus 3% per annum, maturing in September 2005	<b>14,280</b>	<b>20,400</b>
Note payable, unsecured, relating to a court settlement repayable in monthly instalments of \$5,000 commencing June 1, 2003 through to June 1, 2007 with a payment of \$40,000 on October 1, 2003	<b>280,000</b>	<b>-</b>
Refinancing of aged accounts payable, repayable in monthly principal instalments of \$25,805, plus applicable interest, secured by leased equipment, and maturing in October 2007	<b>1,367,713</b>	<b>557,715</b>
Long-term payable, unsecured, relating to the sale of leased equipment repayable in monthly instalments of \$5,000 and maturing in October 2004	<b>85,000</b>	<b>-</b>
Long-term payable relating to a settlement, repayable in monthly instalments of \$11,000 beginning June 2004 and maturing in May 2007, and is secured by the equipment	<b><u>385,000</u></b>	<b><u>385,000</u></b>
	<b>2,860,177</b>	<b>2,017,171</b>
Less portion due within one year	<b><u>(1,144,285)</u></b>	<b><u>(764,056)</u></b>
	<b>\$ <u>1,715,892</u></b>	<b>\$ <u>1,253,115</u></b>

See accompanying notes to the consolidated financial statements.

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**Globel Direct, Inc.**  
**Notes to the Consolidated Financial Statements**  
May 31, 2003

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**8. Long-term debt (Continued)**

The term loans due in November 2003 and August 2004 are secured by debentures having a floating charge on all assets of the Company and a fixed and specific mortgage on all real and immovable property and guarantees from SMI, ICL and JDMSL.

The term loan due in September 2005 is secured by a General Security Agreement over all current and after-acquired personal property of SMI, ICL and GDI subject to priorities of the other term loan lenders.

Future principal repayments are due as follows:

2004	\$ 1,144,285
2005	571,678
2006	499,768
2007	482,161
2008	162,285

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**9. Convertible debentures**

- a) On July 31, 2000, the Company received \$3,000,000 in financing by issuing a convertible debenture in order to fund the acquisition of JDMSL. The terms of the \$3,000,000 convertible debenture issued by the Company include an interest rate of 8% per annum and further provide for the payment of bonus interest of \$1,600,000 at maturity in the event that the issue is not converted into common shares. The convertible debenture matures three years from issue and is convertible at the option of the holder into common shares of the Company at an exercise price of \$2.00 per common share for the first two years of the term and \$2.50 per common share in the final year. Additionally, as part of the financing, the Company issued 300,000 warrants convertible into common shares of the Company at an exercise price of \$2.25 per warrant. Pursuant to the convertible debenture, the Company had the right to settle the debenture with share consideration after eighteen months from the closing date if an average of 20,000 common shares per day had traded, for twenty consecutive days, on a recognized stock exchange at an average price of \$3.50, increasing at \$4.00 twenty-four months after the date of closing.

The convertible debenture is secured by all assets of the Company and was subordinate to the security provided under the operating loan (See Note 7).

As at May 31, 2003, it is unlikely the Company will be able to exercise its right to settle the convertible debenture with shares. Since the Company is not likely to be able to force conversion of the debenture the bonus interest of \$1,600,000 will be payable at maturity, and therefore, has been recorded as a liability at May 31, 2003.

See accompanying notes to the consolidated financial statements.

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# Globel Direct, Inc.

## Notes to the Consolidated Financial Statements

May 31, 2003

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### 9. Convertible debentures (Continued)

On July 31, 2003, the Company defaulted on the repayment of the principal of \$3,000,000 and the bonus interest of \$1,600,000. Management is currently working with the lender to restructure the debt.

- b) On February 8, 2002 the Company received \$900,000 in financing by issuing a convertible debenture. The debenture matures May 9, 2005, bears interest at 8% per annum payable semi-annually, and was convertible at the option of the holder into common shares of the Company at an exercise price of \$0.30 from February 8, 2003 to February 8, 2004, \$0.40 to February 8, 2005 and \$0.50 to May 9, 2005. The Company had the right to settle the debenture with share consideration after February 8, 2003 if an average of 50,000 common shares had traded per day for twenty consecutive trading days on the TSX Venture Exchange at a price greater than \$0.50, increasing to \$0.60 after February 8, 2004 prior to May 9, 2005.

On April 8, 2003 the Company reached a conversion agreement with all debenture holders to convert all debentures at \$0.12 per common share which resulted in the issuance of 7,500,006 common shares.

Included in the conversion was \$175,000 in principal and \$13,129 in interest payable to a director, and companies controlled by an officer, and a director.

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### 10. Income taxes

The significant components of future income tax assets and liabilities at May 31 are as follows:

	<u>2003</u>	<u>2002</u>
Future income tax assets:		
Cumulative eligible capital	\$ 243,781	\$ 282,479
Income tax losses	<u>2,090,000</u>	<u>537,305</u>
	2,333,781	819,784
Future income tax liabilities:		
Capital assets	<u>(427,094)</u>	<u>(614,592)</u>
Net future tax asset	1,906,687	205,192
Valuation allowance	<u>(1,906,687)</u>	<u>(205,192)</u>
	\$ -	\$ -

See accompanying notes to the consolidated financial statements.

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**Globel Direct, Inc.**  
**Notes to the Consolidated Financial Statements**  
May 31, 2003

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**10. Income taxes (Continued)**

The provision for income taxes differs from that calculated using the Canadian statutory rate due to the following:

	<u>2003</u>	<u>2002</u>
Canadian statutory rate	38%	41%
Income taxes (recovery) based on statutory rates	\$ (1,924,785)	\$ (2,868,551)
Non-deductible expenditures	42,660	32,497
Amortization of assets with no tax basis	-	1,303,153
Other	180,630	314,622
Valuation allowance	<u>1,701,495</u>	<u>205,192</u>
	\$ -	\$ (1,013,087)

As at May 31, 2003 the Company has non-capital losses aggregating to approximately \$5.5 million, the related benefit of these losses has not been recognized in the financial statements. Unless sufficient taxable income is earned these losses expire as follows:

2007	\$ 14,000
2008	2,000
2009	1,045,000
2010	4,439,000

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**11. Share capital**

**a) Authorized:**

Unlimited number of Common shares  
Unlimited number of First preferred non-cumulative shares  
Unlimited number of Second preferred non-cumulative shares  
Unlimited number of Series A convertible non-cumulative  
non-voting first preferred shares  
Unlimited number of Series A non-cumulative non-voting  
second preferred shares

See accompanying notes to the consolidated financial statements.

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**Globel Direct, Inc.**  
**Notes to the Consolidated Financial Statements**  
May 31, 2003

**11. Share capital (Continued)**

b) Issued	2003		2002	
	<u>Number</u>	<u>Stated Value</u>	<u>Number</u>	<u>Stated Value</u>
<b>Common shares:</b>				
Balance, beginning of year	16,945,766	\$ 3,867,771	16,930,766	\$ 3,861,771
Issued to acquire assets	-	-	15,000	6,000
Issued for debenture interest payment	521,786	65,043	-	-
Issued to retire convertible debentures	7,500,006	900,000	-	-
Issued on conversion of shareholder loans	3,999,999	480,000	-	-
Issued for cash	<u>5,166,661</u>	<u>619,999</u>	-	-
Balance, end of year	<u>34,134,218</u>	<u>\$ 5,932,813</u>	<u>16,945,766</u>	<u>\$ 3,867,771</u>
<b>Series A Second Preferred shares:</b>				
Balance, beginning of year	249,914	\$ 132,810	223,788	\$ 114,132
Redeemed for cash	-	-	(57,739)	(24,093)
Adjustment	-	-	<u>83,865</u>	<u>42,771</u>
Balance, end of year	<u>249,914</u>	<u>\$ 132,810</u>	<u>249,914</u>	<u>\$ 132,810</u>
Less: share issuance costs (net of tax benefit of \$228,828; 2002 - \$228,828)		<u>\$ 332,276</u>		<u>\$ 314,138</u>
Share capital, end of year		<u>\$ 5,733,347</u>		<u>\$ 3,686,443</u>

See accompanying notes to the consolidated financial statements.

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**Globel Direct, Inc.**  
**Notes to the Consolidated Financial Statements**  
May 31, 2003

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**11. Share capital (Continued)**

**c) Warrants**

	<u>Number</u>	<u>Exercise Price</u>	<u>Expiry</u>
Warrants	250,000	\$ 0.20	March 13, 2004
Warrants	250,000	\$ 0.15	August 9, 2005
Warrants	325,000	\$ 0.15	March 25, 2005
Warrants	<u>150,000</u>	\$ 0.25	January 24, 2006
	<u>975,000</u>		

The Company granted \$725,000 (2002 – \$250,000) warrants to purchase common shares during the year. On July 31, 2002, 300,000 warrants exercisable at \$2.25 expired unexercised.

- d) On July 23, 2001, the Company received approval from the Canadian Venture Exchange to make a normal course issuer bid to purchase up to 847,288 of its issued and outstanding common shares between July 23, 2001 and July 22, 2002. No common shares were purchased.
- e) Per share amounts are calculated based on the weighted average number of common shares outstanding during the year of 18,972,047 (2002 – 16,944,821). Diluted per share amounts have not been presented as they are anti-dilutive.

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**12. Stock-based compensation**

**a) Stock-based compensation plan**

Under the employee stock option plan, the Company may grant options to its officers, directors, employees and consultants for up to 10% of the issued common shares. Options granted under the plan have a maximum term of 5 years, with vesting terms and conditions determined by the board of directors when granted. The exercise price of each option shall be no less than the market price of the Company's shares at the grant date of the options.

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See accompanying notes to the consolidated financial statements.

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**Global Direct, Inc.**  
**Notes to the Consolidated Financial Statements**  
May 31, 2003

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**12. Stock-based compensation (Continued)**

A summary of the status of the Company's employee stock option plan as of May 31, 2003 and 2002 and changes during the years then ended is as follows:

	<u>2003</u>		<u>2002</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	1,285,098	\$ 1.03	1,304,298	\$ 1.23
Granted	-	-	200,000	0.30
Cancelled	<u>(179,000)</u>	<u>1.37</u>	<u>(219,200)</u>	<u>1.49</u>
Outstanding, end of year	<u>1,106,098</u>	<u>\$ 0.96</u>	<u>1,285,098</u>	<u>\$ 1.03</u>
Options exercisable, end of year	<u>1,106,098</u>	<u>\$ 0.96</u>	<u>1,085,098</u>	<u>\$ 1.17</u>

For various price ranges, weighted average characteristics of outstanding employee stock options at May 31, 2003, which expire between June 12, 2003 and March 15, 2006, are as follows:

<u>Exercise Prices</u>	<u>Number Outstanding May 31, 2003</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable May 31, 2003</u>	<u>Weighted Average Exercise Price</u>
0.20	255,000	0.1	\$ 0.20	255,000	\$ 0.20
0.30	200,000	1.9	\$ 0.30	200,000	\$ 0.30
0.35	46,098	0.4	\$ 0.35	46,098	\$ 0.35
1.25	206,000	2.7	\$ 1.25	206,000	\$ 1.25
1.70	<u>399,000</u>	<u>1.8</u>	<u>\$ 1.70</u>	<u>399,000</u>	<u>\$ 1.70</u>
	<u>1,106,098</u>		<u>\$ 0.96</u>	<u>1,106,098</u>	<u>\$ 0.96</u>

See accompanying notes to the consolidated financial statements.

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**Globel Direct, Inc.**  
**Notes to the Consolidated Financial Statements**  
May 31, 2003

**12. Stock-based compensation (Continued)**

**b) Stock-based compensation expense**

CICA Handbook Section 3870 "Stock-based Compensation", establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. During the year the Company granted a total of 725,000 warrants with exercise prices ranging from \$0.15 to \$0.25. The warrants have a two year, or three year term and vested immediately. The warrants were granted to external consultants, or to officers and directors acting in a consulting capacity and therefore, are required to be recorded as an expense in the period issued. The fair value of the issued warrants was estimated to be \$62,914, which was recorded as a general and administrative expense during 2003, with an equal amount credited to contributed surplus.

The weighted average fair market value of warrants granted for the year ended May 31, 2003 was \$0.09 per warrant. The fair value of each option granted was estimated on the date of grant using the Modified Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	3.4% to 3.8%
Estimated hold period prior to exercise (years)	2 to 3 years
Volatility in the price of the Company's shares	104% to 147%

**13. Supplemental cash flow information**

	<u>2003</u>	<u>2002</u>
<b>Change in non-cash working capital:</b>		
Accounts receivable	\$ 342,855	\$ 3,559,084
Prepays and inventory	588,956	274,850
Payable and accruals	298,914	(539,262)
Postage advances	(363,007)	148,817
Income taxes payable (recoverable)	354,515	(389,789)
	<u>\$ 1,222,233</u>	<u>\$ 3,053,700</u>
<b>Other items:</b>		
Interest paid in cash	\$ 995,492	\$ 448,066
Income tax expense (recovery) paid (received) in cash	\$ (330,023)	\$ 299,989
Interest paid by issuance of common shares	\$ 65,043	\$ -
Debentures paid by issuance of common shares	\$ 900,000	\$ -
Shareholder loans converted to common shares	\$ 480,000	\$ -

See accompanying notes to the consolidated financial statements.

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# Global Direct, Inc.

## Notes to the Consolidated Financial Statements

May 31, 2003

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### 14. Commitments

Under the terms of operating leases for premises, including operating costs, and equipment, the Company is obligated to make the following minimum rental payments:

	<u>Premises</u>	<u>Equipment</u>	<u>Total</u>
2003	\$ 546,131	\$ 914,460	\$ 1,460,591
2004	459,390	724,233	1,183,623
2005	283,459	477,022	760,481
2006	207,600	499,920	707,520
2007 and thereafter	<u>258,765</u>	<u>2,914,305</u>	<u>3,173,070</u>
	<u>\$ 1,755,345</u>	<u>\$ 5,529,940</u>	<u>\$ 7,285,285</u>

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### 15. Related party transactions

During the year, the Company had the following transactions with related parties:

- a) Paid rent and operating costs in the amount of \$369,964 (2002 - \$354,204) to a company with common officers, directors and shareholders, of which \$64,907 (2002 - \$85,518) is included in accounts receivable.
- b) Incurred financing fees totalling \$22,500 and issued 225,000 warrants to directors of the Company for providing guarantees on a letter of credit. This is included in accounts payable at May 31, 2003.
- c) Received and repaid a loan of \$60,000 from a company with common officers, directors and shareholders.
- d) Received loans totalling \$300,000 from a director and a company controlled by a director that were subsequently converted into common shares at \$0.12 per share
- e) Paid interest in the amount of \$6,945 to a company with common officers, directors and shareholders and \$5,882 to a company controlled by a director for interim financing.
- f) Received and repaid cash advances during the year totalling \$1,156,511 from a director and a company controlled by a director. These advances were provided to supplement existing operating lines of credit and were non-interest bearing.

See accompanying notes to the consolidated financial statements.

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**Globel Direct, Inc.****Notes to the Consolidated Financial Statements**May 31, 2003

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**15. Related party transactions (Continued)**

- g) The amount due to shareholder of \$45,000 (2002 - \$50,000) plus interest of \$2,500 is due to an employee of the Company.
- h) The amount due to affiliates of \$75,000 (2002 - \$75,000) is due to a company controlled by a director, bearing interest at 8% and maturing in February 2005.

These transactions were measured at the exchange amounts which was the amount of consideration established and agreed upon by the related parties.

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**16. Financial instruments****a) Fair values**

The fair values of the Company's accounts receivable, operating loan, payables and accruals and postage advances approximates their carrying values due to their short-term maturity.

The fair values of the long-term debt approximate their carrying values.

The fair value of the convertible debenture approximates it's carrying value.

**b) Credit risk**

The Company's maximum credit risk exposure is limited to the carrying value of accounts receivable of \$3,873,211 (2002 - \$4,216,066).

**c) Interest rate risk**

The Company is exposed to interest rate risk to the extent that the operating loan and long-term debt bear interest at floating interest rates.

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See accompanying notes to the consolidated financial statements.

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## **Globel Direct, Inc.**

### **Notes to the Consolidated Financial Statements**

May 31, 2003

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#### **17. Subsequent events**

- a) Subsequent to year end, the Company was notified by their legal counsel that a former employee has filed a constructive dismissal suit against the Company. The total claim is in excess of \$500,000. Management has indicated the claim is without merit and they have complied with the employment law.
- b) In a letter of intent dated September 10, 2003, the Company has agreed in principle to sell certain customer accounts and relationships, inventory, net of related accounts payable, certain capital assets and employee contracts for consideration of \$2,000,000, an exchange of payables and receivable between Globel Direct, Inc. and the purchaser, and a proportionate share from an earn-out arrangement.

This letter of intent is contingent upon the purchaser closing an additional letter of intent dated July 14, 2003 with another company. The closing of the additional letter of intent is outside of management's control and the probability of closing the sale is not determinable at this time.

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#### **18. Comparative figures**

The presentation of certain accounts of the previous year has been changed to conform with the presentation adopted for the current year.

See accompanying notes to the consolidated financial statements.

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## Corporate Information

### Board of Directors

JR Richardson  
President and Chief Executive Officer  
Globe Direct, inc.  
Calgary, Alberta

Daryl H. Gilbert  
President  
Gilbert Lautsen, Jung Associates Ltd.  
Calgary, Alberta

R. David Webster  
Manager, Pipeline Integrity  
Colt Engineering Corporation  
Calgary, Alberta

### Management

JR Richardson  
President and Chief Executive Officer

Sandi K. Gilbert  
Senior Vice President, Strategy

Leslie R. Byle  
Chief Financial Officer

### Investor Relations Contact

Kim Rayner  
Globe Direct, inc.  
1-800-551-5721  
Phone 403-531-6550

### Corporate Headquarters

1324 – 36 Avenue N.E.  
Calgary, Alberta T2E 8S1  
1- 800- 551-5721  
Phone 403 531-6550  
Fax 403-531-6560  
www.globe.com

### Transfer Agent

CIBC Mellon Trust Company  
Calgary, Alberta

### Legal Counsel

McLeod & Company  
Calgary, Alberta

### Auditors

Grant Thornton LLP  
Calgary, Alberta

### Stock Listing

TSX Venture Exchange  
Trading Symbol: GBD

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**Globel Direct, inc.**

**Quarterly Interim Report**

**First Quarter ended August 31, 2003**

## **Management's Discussion & Analysis**

The following discussion and analysis is management's assessment of Globel's historical financial and operating results and should be read in conjunction with the unaudited consolidated financial statements of the Company for its first quarter ended August 31, 2003.

### **Major Transactions Affecting Financial Results**

The economic slowdown has continued to keep revenues suppressed, however, the Company remains focused on managing its cost structure to keep pace with those revenue levels.

### **Revenue**

Revenue in the first quarter ended August 31, 2003 decreased by 23% to \$3.5 million compared to \$4.5 million in 2002. The decrease primarily results from sales declines in Canadian direct marketing services and domestic direct mail operations, as customers deferred spending decisions as a result of current macroeconomic and geopolitical conditions.

### **Expenses**

Expenses in the first quarter of its fiscal year 2004 were \$3.7 million compared to \$5.5 million in 2002, a decrease of 28%. Production expenses decreased to \$2.3 million in 2003 from \$3.2 million in 2002 yielding a gross margin of 33% as compared to 29% in 2002. Administration, selling and marketing expenses have also decreased in the first quarter to \$1.4 million from \$1.9 million in 2002. The Company continues to seek ways to lower its operating costs and put greater emphasis on the profitability of its contracts.

### **Interest and Amortization**

Interest expense for the first quarter has increased to \$0.26 million from \$0.20 million in the year prior due to the higher borrowing costs the Company was required to pay to support its debt financings.

Amortization expense for the first quarter has decreased to \$0.20 million for the quarter from \$0.25 million for the prior year due to the Company's lower asset base resulting from its declining balance method used to calculate amortization expense.

**Income Taxes**

Due to losses from operation, the Company has not recorded any tax effect for the first quarter. As at May 31, 2003 the Company has non-capital losses aggregating to approximately \$5.5 million, the related benefit of these losses has not been recognized in the financial statements. These losses expire beginning in 2007.

**Liquidity and Capital Resources**

Working capital (defined as current assets minus current liabilities excluding current portion of long-term debt and convertible debentures) was in a negative position at the end of it's first quarter of 2.1 million, compared to a negative position of \$1.5 million at its recent year ended May 31, 2003, yielding a working capital ratio of 0.60 versus 0.76 from the fiscal year end. The decrease in working capital was primarily due to the Company's high cost of debt and operating losses for the quarter.

Globel Direct entered into a new lending arrangement with Express Commercial Services (ECS) during it's first quarter of 2002. This lending arrangement involves the assignment of Globel Direct's accounts receivable to ECS. At the end of its first quarter, the amount currently owed to ECS was \$0.7 million.

The Company is currently in negotiations to restructure its Convertible Debenture with Roynat Capital Inc, the holder of the \$3,000,000 Convertible Debenture and its accompanying \$1,600,000 of bonus interest.

**Risks and Uncertainties**

The market for the Company's direct marketing and business communications solutions is highly competitive, characterized by ongoing technological development and rapid changes in customer requirements. The Company's future success will depend upon its ability to continue to enhance its current products and to develop and introduce, in a timely manner, new products that take advantage of technological advances and respond to new customer requirements. It is necessary for the Company to raise additional funds to support current operations and future growth.

**Outlook**

The Corporation expects this fiscal year to recover to profitability as the balance of the fiscal year progresses.

**Q1 - 2004F**  
**GLOBEL DIRECT, INC.**  
**Consolidated Statement of Income**  
(unaudited)

3 months ended August 31

	<u>2003</u>	<u>2002</u>
<b><u>Revenues</u></b>		
Revenues from operations	\$ 3,472,531	\$ 4,465,244
<b><u>Expenses</u></b>		
Production	\$ 2,312,817	\$ 3,180,782
Administration	1,069,123	1,524,932
Selling & Marketing	309,267	399,952
Total expenses	<u>\$ 3,691,207</u>	<u>\$ 5,105,666</u>
<b>Income (loss) from Operations</b>	<b>\$ (218,676)</b>	<b>\$ (640,422)</b>
Bank charges & Interest expense	263,545	198,503
Amortization expenses	<u>202,568</u>	<u>254,929</u>
<b>Earnings before taxes</b>	<b>\$ (684,789)</b>	<b>\$ (1,093,854)</b>
Income taxes	<u>-</u>	<u>-</u>
<b>Net earnings (loss)</b>	<b>\$ (684,789)</b>	<b>\$ (1,093,854)</b>
 <b>Deficit, beginning of year</b>	 <b>(11,414,132)</b>	 <b>(5,791,193)</b>
<b>Net loss</b>	<b>(684,789)</b>	<b>(1,093,854)</b>
	-	-
<b>Deficit, end of year</b>	<b>\$ (12,098,921)</b>	<b>\$ (6,885,047)</b>
 Earnings per share (note 3 c)	 <b>\$ (0.02)</b>	 <b>\$ (0.06)</b>

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**GLOBEL DIRECT, INC.**  
**Consolidated Balance Sheets**  
(unaudited)

	Fiscal Period ended	
	August 31	May 31
	<u>2003</u>	<u>2003</u>
<b><u>ASSETS</u></b>		
<b>Current Assets</b>		
Cash	\$ 48,366	\$ 163,211
Accounts Receivable	2,332,158	3,873,211
Inventory	191,089	246,733
Deposits and prepaid expenses	569,340	449,979
<b>Total Current Assets</b>	<b>\$ 3,140,953</b>	<b>\$ 4,733,134</b>
Capital assets	3,214,170	3,413,745
Investments at cost	24,471	24,471
<b>Total Assets</b>	<b>\$ 6,379,594</b>	<b>\$ 8,171,350</b>
<b><u>LIABILITIES</u></b>		
<b>Current Liabilities</b>		
Factor line of credit	676,485	1,125,966
Payables and accruals	3,700,121	4,036,574
Postage advances	856,093	1,046,504
Due to shareholder	45,000	45,000
Total current before long-term debt/debentures	\$ 5,277,699	\$ 6,254,044
Current portion of long-term debt	1,144,285	1,144,285
Convertible debentures	4,600,000	4,600,000
<b>Total Current Liabilities</b>	<b>\$ 11,021,984</b>	<b>\$ 11,998,329</b>
Due to affiliate	75,000	75,000
Long-term debt	1,585,270	1,715,892
<b>Total Liabilities</b>	<b>\$ 12,682,254</b>	<b>\$ 13,789,221</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>		
Share capital	5,733,347	5,733,347
Contributed surplus	62,914	62,914
Retained earnings	(12,098,921)	(11,414,132)
<b>Total Shareholders' Equity</b>	<b>\$ (6,302,660)</b>	<b>\$ (5,617,871)</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 6,379,594</b>	<b>\$ 8,171,350</b>

**GLOBEL DIRECT, INC.**  
**Consolidated Statements of Cash Flows**  
(unaudited)

3 months ended August 31

2003

2002

**OPERATING ACTIVITIES**

Net income (loss)	\$ (684,789)	\$ (1,093,854)
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Items not affecting cash:

Depreciation, amortization	202,568	254,929
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Funds provided by (used in) operating activities	(482,221)	(838,925)
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Changes in operating assets and liabilities:

Accounts receivable	1,541,053	689,808
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Prepays and inventory	(63,717)	737,051
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Accounts payable and accrued liabilities	(221,453)	(1,388,089)
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Postage advances	(190,411)	307,618
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Changes in operating assets and liabilities	1,065,472	346,388
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Cash provided by (used in) operating activities	\$ 583,251	\$ (492,537)
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**FINANCING ACTIVITIES**

Proceeds from factor line of credit, net	\$ (449,482)	\$ 1,412,992
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Repayment of bank indebtedness	-	(1,590,531)
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Proceeds from long-term debt		538,776
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Repayment of long-term debt	(245,622)	(90,751)
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Issuance of common shares, net of issue costs	-	-
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Cash provided by financing activities	\$ (695,104)	\$ 270,486
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**INVESTING ACTIVITIES**

Purchase of property and equipment	\$ (2,992)	\$ (144,642)
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Cash used in investing activities	\$ (2,992)	\$ (144,642)
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Decrease (increase in bank indebtedness)	\$ (114,845)	\$ (366,693)
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Cash (bank indebtedness), beginning of period	\$ 163,211	\$ 400,937
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Cash (bank indebtedness), end of period	\$ 48,366	\$ 34,244
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**Notes to Consolidated Financial Statements**  
**For period of three months ended August 31, 2003 (unaudited)**

1. Basis of Presentation

These consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles. The same policies as described in the latest annual report have been used. However, these consolidated financial statement do not include all disclosures required under generally accepted accounting principles and accordingly should be read in connection with the consolidated financial statements and the notes thereto included in the Corporation's latest Annual report.

2. Unrecorded amounts

Certain transactions relating to the refinancing of lease commitments payable for the year ended May 31, 2002 were previously included in the future commitments disclosure and not recorded on the balance sheet. The Company has also restated its tax position as no taxes were deemed as payable or recoverable for the year ended May 31, 2003. As a result, the Company retroactively restated the following as at it's first quarter ended August 31, 2002:

	<u>As reported</u>	<u>Change</u>	<u>Restated</u>
Production expense	\$ 2,642,006	\$ 538,776	\$ 3,180,782
Income tax recovery	\$ (228,812)	\$ 228,812	\$ -
Net loss	\$ (326,266)	\$ (767,588)	\$(1,093,854)
Deficit, August 31, 2002	\$(6,117,459)	\$ (767,588)	\$(6,885,047)
Long-term debt	\$ 636,000	\$ 538,776	\$ 1,174,776

3. Significant Accounting policies

There have been no changes from policies in effect as @ May 31, 2003, the Corporations latest annual report.

4. Share Capital

a. Authorized:

Unlimited number of Common shares  
 Unlimited number of First preferred non-cumulative shares  
 Unlimited number of Second preferred non-cumulative shares  
 Unlimited number of Series A convertible non-cumulative non-voting first preferred shares

Unlimited number of Series A non-cumulative non-voting second preferred shares

b. Issued:

	Number of Shares	Amount
Balance , May 31, 2003	34,134,218	\$5,733,347
Balance, August 31, 2003	34,134,218	\$5,733,347

- c. Earnings per share is calculated based on the weighted average number of Common shares outstanding during the year of 34,134,218 (2002 – 16,945,766). Diluted earnings per share have not been presented as they are not materially dilutive.

5. Factor line of credit

Effective July 27, 2002, the Company entered into an agreement for a revolving line of credit to fund its operations from Express Commercial Services (ECS), in exchange for a first charge against the Company's accounts receivables, a general security agreement and postponement of all shareholder loans. Under this lending facility, the Company can borrow a maximum of \$5,000,000, based on good quality, fully earned and undisputed accounts receivable acceptable to ECS. The Company will receive in advance up to 75% of accounts receivable purchased by ECS, with the remainder received as collected by ECS, net of interest and service charges. This lending facility bears a discount rate of \$0.93 per day per \$1,000 of factored receivables and carries an equivalent interest rate of 34% per annum on outstanding accounts receivable. At August 31, 2003 the amount borrowed to ECS was \$676,485.

6. Long Term Debt

Aug 31/03      May 31/03

Five year term loan, repayable in monthly payments of \$19,800 plus interest at the lenders floating base rate plus 3.25% per annum, plus an administration fee of \$3,800 per month for the term of the loan, maturing in August, 2004

\$290,000      \$290,000

Term loan, repayable in blended monthly payments of \$15,000 including interest at 2% per month for the term of the loan, maturing in November 2003 with the balance remaining payable at that time

\$416,507      \$438,184

Term loan, repayable in monthly principal installments of \$510 plus interest at the lenders floating rate plus 3% per annum, maturing in

82-5089

september 2005	\$12,750	\$14,280
Note payable, unsecured, relating to a court settlement repayable in monthly installments of \$5,000 commencing June 1, 2003 through June 1, 2007, with a payment of \$40,000 on October 1, 2003	\$265,000	\$280,000
Refinancing of aged accounts payable, repayable in monthly principal payments of \$25,805 plus applicable interest, secured by leased equipment, and maturing in October 2007	\$1,290,298	\$1,367,713
Long-term payable, unsecured, relating to the sale of leased equipment repayable in monthly installments of \$5,000 and maturing in October 2004	\$70,000	\$85,000
Long-term payable relating to a settlement, repayable in monthly installments of \$11,000 beginning June 2004 and maturing in May 2007, and is secured by the equipment	\$385,000	\$385,000
	<u>\$2,729,555</u>	<u>\$2,860,177</u>
Less: portion due within one year	1,144,285	\$1,144,285
	<u>\$1,585,270</u>	<u>\$1,715,892</u>

The term loans due in November 2003 and August 2004 are secured by debentures having a floating charge on all assets of the Company and a fixed and specific mortgage on all real and immovable property and guarantees from SMI, ICL, and JDMSL.

The term loan due in September 2005 is secured by a General Security Agreement over all current and after-acquired personal property of SMI, ICL, and GDI subject to priorities of the other term loan lenders.

#### 7. Related Party transactions

During the first quarter, the Company had the following transactions with related parties:

- a) Paid rent and operating costs in the amount of \$78,750. to a company with common officers, directors and shareholders, of which \$59,754 is included in accounts receivable.

- b) Received and repaid cash advances during the quarter totaling \$387,828 from a director and a company controlled by a director. These advances were provided to supplement existing operating lines of credit and were non-interest bearing.

8. *Directors and Officers of the Company*

J.R. Richardson	- President, Chief Executive Officer, Director
Daryl H. Gilbert	- Director
R. David Webster	- Director
Sandi K. Gilbert	- Senior Vice President, Strategy
Leslie R. Byle	- Chief Financial Officer

FORM 51-901F

Quarterly Report

Incorporated as part of: \_\_\_\_\_ Schedule A  
 \_\_\_\_\_ X \_\_\_\_\_ Schedules B & C

ISSUER DETAILS:

NAME OF ISSUER: Globel Direct, inc.  
 ISSUER ADDRESS: 1324 – 36 Ave  
 Calgary, Alberta T2E 8S1  
 ISSUER PHONE: 403-531-6550  
 ISSUER FAX: 403-531-6560  
 CONTACT PERSON: Leslie Byle  
 CONTACT'S POSITION: Chief Financial Officer  
 CONTACT PHONE NUMBER: 403-531-6572  
 FOR QUARTER ENDED: August 31, 2003  
 DATE OF REPORT: October 30, 2003  
 CONTACT EMAIL ADDRESS: leslie.byle@globel.com  
 WEB SITE ADDRESS: www.globel.com

CERTIFICATE

THE THREE SCHEDULES REQUIRED TO COMPLETE THIS REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT.

R. David Webster	"R. David Webster"	October 30, 2003
NAME OF DIRECTOR		DATED

Daryl H. Gilbert	"Daryl Gilbert"	October 30, 2003
NAME OF DIRECTOR		DATED

## Schedule B – Supplementary Information

### Notes to Consolidated Financial Statements

For period of three months ended August 31, 2003 (unaudited)

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R. David Webster	- Director
Sandi K. Gilbert	- Senior Vice President, Strategy
Leslie R. Byle	- Chief Financial Officer

## **Schedule C**

### **Management's Discussion & Analysis**

The following discussion and analysis is management's assessment of Global's historical financial and operating results and should be read in conjunction with the unaudited consolidated financial statements of the Company for its first quarter ended August 31, 2003.

#### **Major Transactions Affecting Financial Results**

The economic slowdown has continued to keep revenues suppressed, however, the Company remains focused on managing its cost structure to keep pace with those revenue levels.

#### **Revenue**

Revenue in the first quarter ended August 31, 2003 decreased by 23% to \$3.5 million compared to \$4.5 million in 2002. The decrease primarily results from sales declines in Canadian direct marketing services and domestic direct mail operations, as customers deferred spending decisions as a result of current macroeconomic and geopolitical conditions.

#### **Expenses**

Expenses in the first quarter of its fiscal year 2004 were \$3.7 million compared to \$5.5 million in 2002, a decrease of 28%. Production expenses decreased to \$2.3 million in 2003 from \$3.2 million in 2002 yielding a gross margin of 33% as compared to 29% in 2002. Administration, selling and marketing expenses have also decreased in the first quarter to \$1.4 million from \$1.9 million in 2002. The Company continues to seek ways to lower its operating costs and put greater emphasis on the profitability of its contracts.

#### **Interest and Amortization**

Interest expense for the first quarter has increased to \$0.26 million from \$0.20 million in the year prior due to the higher borrowing costs the Company was required to pay to support its debt financings.

Amortization expense for the first quarter has decreased to \$0.20 million for the quarter from \$0.25 million for the prior year due to the Company's lower asset base resulting from its declining balance method used to calculate amortization expense.

**Income Taxes**

Due to losses from operation, the Company has not recorded any tax effect for the first quarter. As at May 31, 2003 the Company has non-capital losses aggregating to approximately \$5.5 million, the related benefit of these losses has not been recognized in the financial statements. These losses expire beginning in 2007.

**Liquidity and Capital Resources**

Working capital (defined as current assets minus current liabilities excluding current portion of long-term debt and convertible debentures) was in a negative position at the end of it's first quarter of 2.1 million, compared to a negative position of \$1.5 million at its recent year ended May 31, 2003, yielding a working capital ratio of 0.60 versus 0.76 from the fiscal year end. The decrease in working capital was primarily due to the Company's high cost of debt and operating losses for the quarter.

Global Direct entered into a new lending arrangement with Express Commercial Services (ECS) during it's first quarter of 2002. This lending arrangement involves the assignment of Global Direct's accounts receivable to ECS. At the end of its first quarter, the amount currently owed to ECS was \$0.7 million.

The Company is currently in negotiations to restructure its Convertible Debenture with Roynat Capital Inc, the holder of the \$3,000,000 Convertible Debenture and its accompanying \$1,600,000 of bonus interest.

**Risks and Uncertainties**

The market for the Company's direct marketing and business communications solutions is highly competitive, characterized by ongoing technological development and rapid changes in customer requirements. The Company's future success will depend upon its ability to continue to enhance its current products and to develop and introduce, in a timely manner, new products that take advantage of technological advances and respond to new customer requirements. It is necessary for the Company to raise additional funds to support current operations and future growth.

**Outlook**

The Corporation expects this fiscal year to recover to profitability as the balance of the fiscal year progresses.